

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**ADMINISTRATIVE RULE
FISCAL IMPACT STATEMENT**

PROPOSED RULE: 01-399
STATE AGENCY: Department of Insurance

DATE PREPARED: Sep 3, 2002
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Digest of Proposed Rule: This rule adds 760 IAC 1-5.1 to establish standards for credit life insurance and credit accident and health insurance. The rule repeals 760 IAC 1-5 and 760 IAC 1-14.

Governmental Entities: *State Impact:* This rule will not impact the Department of Insurance workload, nor will it increase costs associated with program administration. The Department may have fewer requests for rate deviations as a result of this rule. However, the rate deviations submitted may require additional analysis and review, thus negating any savings.

This rule will reduce the amount of state tax collected from insurance premiums. For CY 2000, insurance companies in Indiana wrote a total of \$147.9 M of premiums for the affected coverages - \$69 M of credit life premium and \$78.9 M of credit disability premium. According to Deloitte & Touche the new rule would require insurers to reduce their premiums by about 31% for credit life and 15% for credit disability resulting in approximately \$33.2 M less in premiums (based on 2000 premium data). This could result in an estimated loss of approximately **\$600,000** in state premium tax revenue. This estimate is based upon 2000 premium data, the most recent data available, and the 2003 premium tax rates. If this rule also impacts the number of premiums written, the impact on premium tax revenue could be more or less. For example a 10% change in the volume of premiums would impact revenue by approximately \$270,000. This does not incorporate any revenue forecast of premium taxes for FY 2003. The actual fiscal impact depends upon various factors including response of the regulated entity to the new prima facie rates, as well as consumer response to the new lower rates. (Secondary Impact: A reduction in consumer expenditures on premium and corresponding increase in disposable income could positively impact other revenue sources.)

Background: This rule: (1) changes the prima facie rates for credit life and credit disability insurance (\$0.69 per \$1,000 per month for single life and \$1.15 per \$1,000 for joint life for monthly outstanding balances; and sets rates for single premium policies as well); (2) sets a cap on compensation paid to creditors and agents for the sale of credit insurance (40% and 33% of net written prima facie premium respectively); (3) sets a target loss ratio of 55% for these policies (loss ratio is the incurred claims divided by the sum of earned premiums and imputed interest earned on unearned premiums); and (4) requires the Department to review the prima facie rates every three years and adjust them according to the past three years' loss and premium data.

Local Impact: There are no local unfunded mandates or impacts.

Regulated Entities: This rule will have an impact to the regulated community in the amount of premiums charged. Based on 2000 premium data, the amount of premiums could be reduced by approximately **\$33.2 M**. This assumes that premiums charged correlate with the new prima facie rates set in rule. The new prima facie rates reflect a 31% and 15% premium reduction for credit life and credit disability policies, respectively.

Information Sources: Amy Strati, Chief Legal Counsel, Indiana Department of Insurance, (317) 232-0143. Jeff Beckley, Deloitte & Touche, (317) 656-2450; National Association of Insurance Commissioners.